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RESEARCH ARTICLE

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Abstract The underdeveloped institutional framework and trade barriers between China's provinces make cross-province acquisitions challenging. We explore how Chinese firms can mitigate this problem. Drawing on social network theory we propose that cross-province rotation of political leaders—a key element of the promotion system of political cadres in China—is a mechanism enabling growth through cross-province acquisitions. We conceptualize rotated leaders as brokers between two geographically dispersed networks. We contribute to the literature on the characteristics of Chinese social networks, the effect of political connections on firm strategy, and the impact of political rotations on firm growth in China's provinces.

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Introduction

Research on the business and strategy of Chinese firms rarely discusses domestic acquisition growth (Zhu and Zhu 2016). Weak factor markets, institutional voids, and a lack of independent decision-making and managerial skills in Chinese firms all render domestic acquisition growth highly problematic (Peng and Heath 1996). It is further aggravated by the fragmented domestic market, and the environment is especially challenging for private firms (POEs) that in the context of state control over resources such as finances as well as market and corporate information have poor access to such critical inputs compared to state-owned firms (SOEs) (Boisot and Meyer 2008; Chen et al. 2011; Young 2000; Xu et al. 2010).

Interestingly, empirical evidence on firm acquisitions in China seems to diverge from this view. Tang and Metwalli (2012) estimated that over 90% of all acquisitions conducted by Chinese firms between 2000 and 2010 were domestic. Moreover, according to other statistical observations, over 40% were completed by POEs and over a quarter of all deals were conducted with targets located outside the province of the acquiring firm (Chi et al. 2011). These values are all non-trivial, indicating that despite various obstacles, Chinese firms do engage in domestic acquisition growth. Hence, in this study we investigate the following research question: How do Chinese firms overcome barriers associated with cross-province acquisition growth?

We propose that cross-province rotation of political leaders, which is part of the promotion system of political cadres set up by the Chinese government (Ke 2015), is a mechanism that can allow firms to overcome barriers associated with cross-province acquisition growth. Borrowing from social network theory (Burt 1992), we conceptualize a rotated leader as a broker between two relatively closed provincial business–government networks who can offer both network information and reputation benefits, which otherwise would not be available to them. Since business–government networks in two different provinces are bridged by a rotated leader, an acquisition could originate from either of the networks. To capture the direction of these processes, we distinguish between outgoing and incoming political rotations. An outgoing political rotation opens up acquisition opportunities for firms located in the political leader's former province, whereas an incoming political rotation offers such opportunities to firms in the new province. Building on social network theory, we propose that incoming political rotation has a stronger effect on cross-province acquisition growth compared to outgoing. Finally, we investigate how the institutional heterogeneity of Chinese provinces—which adds to the fragmentation of the Chinese market for corporate control—and firm ownership moderate the effect of incoming political rotation on cross-province acquisitions. Our results show that outgoing and incoming political rotations are both catalysts of cross-province acquisitions and that POEs located in less-developed provinces and aiming to acquire targets in more-developed provinces, benefit most from incoming political rotation.

Our study makes several contributions. We inform the literature investigating social networks in emerging markets (Batjargal 2007; Jansson et al. 2007; Michailova and Hutchings 2006; Sheng et al. 2011). Previous studies show that Chinese networks tend to be dense, with few structural holes, thus limiting the ability of network members to obtain novel information, something that in turn may have far-reaching implications for firm strategy and innovation (Batjargal 2007). However, we show that business–government networks offer brokerage opportunities when political leaders are rotated from one such discrete dense network to another. Our study thus offers novel insights into how firm managers in China may access non-redundant geographically distributed information. We also contribute to the literature investigating the political capital of firms (Jia 2014; Özcan and Gündüz 2015) and show that the spatial effects of social networks cannot be captured by the traditional measures of political connections in China.

Furthermore, we contribute to the literature on business–government relationships in China by investigating the effect of political connections on firm strategy (Chen et al. 2014; Li et al. 2012). Finally, we show that rotated political leaders have an impact not only in their new provinces, which have been the focus of prior studies within public economics and administration (Zhu and Zhang 2016), but also in the provinces they previously served. Hence, we suggest that the rotation of political leaders could be used as a public policy tool instigating cross-province business activities.

Theoretical background and hypotheses

The gradual transformation of a planned economy in China towards an open market, which began in the early 1980s, required a significant revision of the institutional framework, including legalization of the private sector, privatization of SOEs, and the establishment of market intermediaries. This transformation has resulted in a system where formal institutions are subject to great change, market and regulatory information is opaque, and the institutional framework has voids (Hitt and Xu 2016; Puffer et al. 2010; Tan et al. 2009). Such conditions of the formal institutional framework elevate uncertainty in doing business.

In such environments, firms' reliance on informal institutions to achieve business goals play a larger role (Peng and Heath 1996; Peng et al. 2008; Puffer et al. 2010). In China, one important informal institution is interpersonal networks (*guanxi*) (for a review see Chen et al. 2013). *Guanxi* ties are governed by reciprocity and obligations, have strong in-group favoritism and a long-term orientation with regard to returning favors (Gu et al. 2008; Xiao and Tsui 2007). Such ties, as well as offering reputational benefits, are conduits for the transfer of information and other resources between firms (Barbalet 2017; Sheng et al. 2011; Xiao and Tsui 2007). Indeed, in China "who you know is more important than what you know" (Yeung and Tung 1996, p. 54). In the context of state capitalism in China, where control over banks, land, and information rests with the government, cultivating ties with political stakeholders becomes an important strategy (Peng and Luo 2000; Tan et al. 2009). In the case of firm acquisitions, considering the amount of risk and investment that this strategy entails (Pablo et al. 1996), reliable information about target firms, access to finances to fund

the deal, and contract enforcement become crucial. For example, in China, firm's accounting data are often unreliable even in the case of listed firms, and corporate information is often controlled by the government, so only firms with political ties have a chance to access the kind of information that is critical for due diligence (Piotroski and Wong 2013; Xu et al. 2010).

In the case of cross-province acquisitions, cultivation of political ties for acquiring firms becomes even more indispensable, for two reasons. First, historically, Chinese provinces have largely been isolated from each other, and during the planned economy each province aimed to be a self-sustaining industrial system (Ke 2015; Xu 2011). This is still reflected in local governments having considerable power over economic and administrative matters within their jurisdictions, creating significant differences in laws and regulations across provinces (He et al. 2008; Xu 2011). This relative isolationism has also led to cross-province variations in informal institutions such as local customs, dialects, and even propensity to risk-taking (Fang 2005). Due to the absence of an integrated national market and inefficient market intermediaries, local information does not flow easily across provinces (Chang and Xu 2008). Hence, acquiring a target in another province requires not only covering costs related to the deal per se, but also covering additional costs of obtaining, analyzing, and verifying information on the target province's formal and informal institutions. Considering that *guanxi*, like any other network, is subject to geographical proximity between actors (Li et al. 2008; Lu et al. 2014) and is unlikely to span various relatively closed provinces, the task of how to access the information necessary for cross-province firm growth represents an important business challenge.

Second, the confluence of the fiscal federalism regime and the promotion system of political cadres presents firms with considerable discriminatory challenges in another province. On the one hand, fiscal federalism is a regime in which provincial governments must hand over a significant proportion of their income to Beijing, thereby limiting the funds available for provincial development. On the other hand, the promotion system of political cadres is set up in such a way that a political leader's promotion is conditional on economic growth and the fulfillment of public policy programs in the respective jurisdiction (Li and Zhou 2005). The co-existence of the two systems creates a bi-directional relationship between business and government within a province (Shi et al. 2014). Specifically, it is not only firms that become interested in cultivating political ties to access various resources, but also the local government, which is deeply incentivized to maintain a relationship with local business to encourage not only its product output, but also achieve social objectives like maintaining low unemployment rates (Lee and Jin 2009). One way provincial leaders can achieve both goals is by protecting local firms from inter-province competition by establishing tariff and non-tariff barriers to firms from outside the province (He et al. 2008). Local governments have been found to engage directly in discrimination against firms from other provinces and thwart acquisition attempts by outside firms from fear of losing control over local firms (Eberhardt et al. 2013; Peng et al. 1999; Young 2000). This institutional dynamic intensifies the challenge of building political ties across provinces for cross-province growth.

We propose that the institution of rotating provincial leaders offers access to business–government networks in another province that may be used for cross-

province acquisitions between the two provinces. In contrast to other federalist countries, provincial leaders in China are not elected, but appointed by the central government, and serve for terms of 5 years in a province with a maximum of two terms in the same province. The rotation system was introduced in the 1990s and is deployed as a measure of personnel control to ensure the alignment of central-local government interests, to reduce corruption and faction formation between party cadres, to disseminate successful experiments with institutional development across provinces, and to stimulate provincial integration (Ke 2015; Xu 2011; Zhang and Gao 2008).

Drawing from social network theory (Burt 1992), we conceptualize a rotated leader as a broker between business–government networks in the former and new provinces. Prior research has established that local leaders develop strong and lasting ties with businesses in their jurisdiction (Li et al. 2008; Li and Zhang 2007; Shi et al. 2014). Moreover, there is some evidence that such close relations endure also when leaders are rotated to other provinces (Du et al. 2015). Hence, a rotated leader becomes uniquely embedded in two geographically separated networks serving as a conduit of novel, and otherwise unavailable, information to these networks. By the same token, a rotated leader may even become a transmitter of reputation by directly linking actors across the two networks (Bell and Zaheer 2007; Gulati and Gargiulo 1999; Yang et al. 2011). A rotated local leader facilitates cross-province economic exchange by offering non-redundant information about market conditions and business opportunities that lower transaction costs and confer legitimacy, thus leading to lower discrimination risks for firms in both provinces. Based on this, we formulate our first hypothesis:

Hypothesis 1 Outgoing and incoming political rotation is positively related to cross-province acquisitions between two provinces.

We further propose two arguments suggesting that the likelihood of initiating a cross-province acquisition is different for firms located in the former or in the new province. Usually, a newly rotated provincial leader is unfamiliar with the local context (Zhang and Gao 2008) and because social ties require time to cultivate (Reagans 2005) does not have a strong relationship with the local business community. First, this implies that any information a rotated leader might have about the new province is less extensive compared to their knowledge about their former province. This means that firms from the leader's former province will benefit less from the rotation relative to firms in the province to which the leader is rotated.

Second, brokers are not only conduits of non-redundant information and resources, but they can also leverage this unique position for personal benefit (Kauffeld-Monz and Fritsch 2013). Strong ties with the new business community are crucial for a provincial leader to succeed in instigating local growth on the one hand, and charging local firms with the fulfillment of various social goals on the other. Hence, we can expect that a rotated leader will seek ways to accelerate building strong relationships in the new province through engaging in reciprocal interactions with the local business community. One way to do this is to ensure that local firms have opportunities for cross-province growth that are difficult to come by

otherwise. Another way is to impose a limit on acquisitions incoming from the former province, as this might be perceived as a threat to the local business community, and, therefore, depress the establishment of strong *guanxi* ties. We propose:

Hypothesis 2 Incoming political rotation has a stronger positive impact on cross-province acquisitions than outgoing.

Heterogeneity of provincial institutional development in China implies that government intervention in the economy, access to market information and other resources, and reliance on informal institutions to achieve business goals vary across provinces (Choi et al. 2015; He et al. 2008). Based on this, we propose that having a bridge to business–government networks in another province may be more valuable for firms from less-developed provinces. In line with the thesis that social ties substitute for poorly functioning institutions (Xin and Pearce 1996), in the presence of greater institutional voids, firms from less-developed provinces rely on networks to achieve business goals more than firms from more-developed provinces. Hence, firms from less-developed provinces are more likely to strategically cultivate *guanxi* with a newly rotated leader. Furthermore, firm performance and productivity are lower in less-developed provinces (Chen 2015; Choi et al. 2015), so it is likely that competitive firms located in such provinces have a smaller pool of suitable targets, which increasingly make them look for cross-province growth. More importantly, these firms may wish to acquire targets in more-developed provinces to obtain technologies and know-how and to have access to more munificent environments (Farrell and Lin 2011).

At the same time, firms from less-developed provinces are likely to have lower legitimacy as viable businesses in the eyes of the government in more-developed provinces. Using an analogy with international business, firms from less-developed provinces may be perceived as interested in transferring strategic assets back to the headquarters and, therefore, not be conducive to local economic growth (Deng 2013). Such lack of legitimacy would make the target province's local government reluctant to approve an acquisition or, if approved, lead to higher risk of arbitrary discrimination. An incoming political rotation from a more-developed province may be particularly important for firms from less-developed provinces, because a rotated leader's support may mitigate negative effects of low legitimacy and help avoid future discrimination. These two lines of reasoning lead us to formulate the following:

Hypothesis 3 The effect of incoming political rotation on cross-province acquisitions is particularly strong for firms from less-developed provinces aiming to acquire in more-developed provinces.

We further propose that the above is particularly pertinent for POEs. In the process of moving from the planned to the market economy, private ownership became legally recognized only in the mid-1990s. Yet POEs in China are still resource-constrained and have lower government support compared to SOEs (Du et al. 2015). Nonetheless, Chinese POEs have adapted by becoming more ingenious, gaining more with fewer resources and seeking to exploit any possible opportunity (Peng 2001). In addition, they have learned to strategically cultivate political ties to

overcome a 'liability of privateness' to foster their growth (Chen 2007; Li et al. 2012). Prior research has documented that they do indeed cultivate relationships with political stakeholders and benefit from them more than SOEs (Peng and Luo 2000; Xin and Pearce 1996). At the same time, POEs have top-management-driven ambitions to expand across China, and they suffer the most from the underdeveloped institutional environment (Chen et al. 2011; Liu et al. 2008). Hence, in less-developed provinces, POEs in particular have the ability and motivation to utilize the brokerage position of a rotated leader. We propose our last hypothesis:

Hypothesis 4 The effect of incoming political rotation on cross-province acquisitions is particularly strong for POEs from less-developed provinces aiming to acquire in more-developed provinces.

Method

Data

The sample covers acquisition deals between provinces in mainland China completed by firms listed on the Shanghai and Shenzhen stock exchanges between 2003 and 2012. The primary source of cross-province acquisition deals is Bureau van Dijk's ZEPHYR database, which was further verified and extended by drawing from the China Stock Market & Accounting Research (CSMAR) database produced by the GTA Information Technology Co. Ltd. and the China Accounting and Finance Research Center, which covers firm information on publicly traded firms. The firm-level data come from CSMAR; if the information was not available in the database, we searched for it in annual reports. The key acquisition deal information used in the analysis is an acquiring firm's headquarters location, i.e., the home province, and a target firm's location, i.e., the host province. Only deals involving the transfer of control rights, i.e., the final stake in a target firm being equal to or above 50%, were included. This restriction was applied to ensure that deals were substantial enough to observe the effect of political rotation on the number of cross-province acquisitions. The number of firms in the sample is 358.

Measures

In this study, the dependent variable is the number of cross-province acquisitions completed by the sampled firms each year between 2003 and 2012. The number of deals varies between zero and two for each year-dyad. Overall, 432 cross-province acquisition deals were completed in this time period, or over 1.2 cross-province acquisition deals per firm.

The key independent variable of this study is political rotation between provinces. The data came from the China Vitae database on Chinese leaders, which includes detailed biographies of provincial party secretaries and governors, and which has been used in prior studies (Jia et al. 2013). In this study, we focus on provincial rotation of the political elite, such as party secretaries and deputy

secretaries, provincial governors and deputy provincial governors (Persson and Zhuravskaya 2008; Zang 1991). Only the top political leaders were taken into consideration, because cadres at the lower levels of the political hierarchy may be motivated to engage in rent-seeking rather than build reciprocal ties with the local business community (Ma et al. 2012, p. 23); therefore, the hypothesized relationships between rotated leaders and firms would not apply to them. Ministerial leaders are on the same bureaucratic level as provincial leaders, and therefore the movement of provincial leaders between their respective provinces and ministries in Beijing is also considered a political rotation (Wu 2010).

Several notes should be made regarding what we do not consider to be a political rotation. First, promotions are not coded as political rotations if the official did not change provinces while being promoted. For the reason stated above, only promotions between deputy and higher positions were considered, i.e., promotions of officials from lower hierarchical levels to deputy-level positions, even while changing provinces, are not counted as political rotations. Second, and similarly, demotions and retirements, even when they involve changing provinces, are not considered political rotation. In China's political economy, demotions and retirements involve the movement of leaders to relatively powerless positions (Li and Zhou 2005). In fact, demotions are quite rare and some may even be disguised as retirements to avoid provoking social unrest (Li and Zhou 2005). On any account, such leaders are no longer motivated to engage with the local business community in the same way as those in power, because their career progression no longer depends on it. Hence, such political movements are outside the scope of the hypothesized relationships. Fourth, the biography of the officials, i.e., the province of birth, schooling, and work prior to attaining a position as deputy secretary or deputy governor, is not considered in the measurement. Fifth, rotations of officials across provinces prior to 2003 are not considered.

The total number of provincial deputy secretaries, deputy governors, secretaries, and governors who changed provinces when moving to equivalent or higher positions between 2003 and 2012 is 57; 66% of these officials were subject to only one rotation (rotation between two provinces), and the rest were rotated between more than two provinces. The maximum number of rotations completed by one official is three, e.g., Hu Chunhua, rotated at top provincial ranks between Tibet, Hebei, Inner Mongolia, and Guangdong (three rotations). The total number of political rotations in the given time frame is 74.

Political rotation is captured by two variables: outgoing political rotation and incoming political rotation. Since we are investigating the business–government relationship within a dyad of provinces, then political rotation and acquisition can happen in both directions within the dyad. An outgoing political rotation opens acquisition opportunities for firms in the leader's former province, or, in other words, an acquisition could have been made in the same direction between firms in the same two provinces as the political rotation. It is coded '1' for each dyad-year when such a bridge was made by political rotation, and '0' when no political rotation occurred between the two provinces in this direction. Incoming political rotation opens acquisition opportunities for firms in the new province: in other words, an acquisition could have been made in the direction from the leader's new

province to the former province. It takes on a value of '1' for each dyad-year when such a bridge existed, and '0' when there was no political rotation in this direction.

The first moderating variable of the study is firm ownership, which we proxied by state shareholding, which runs from 0 to 100%, suggesting that POEs are those having no shares owned by the state (0%), all the rest being SOEs. This variable is based on information about the ultimate owner provided by the CSMAR database, which captures owner identity and percentage of shares owned in the firm. We followed Delios et al. (2006) and measured state shareholding as the percentage of shares owned by the central government, local governments, and government-related agencies.

Another moderating variable in our study is the absolute difference in the levels of institutional development between acquiring and target provinces. We identified it as the marketization-index difference between the two provinces produced by the National Economic Research Institute, Beijing, China (Fan et al. 2011; Wang et al. 2016). It is composed of five sub-indices: (1) the relationship between government and market, (2) the development of a non-state economy, (3) the level of product-market development, (4) the level of the essential factor-market development, and (5) the development of market intermediate organization and the legal-system environment. This index is widely used in studies focusing on the impact of the level of institutional development of Chinese provinces on firm strategy.

When accounting for alternative explanations for the number of cross-province acquisitions, we selected several firm-level control variables. First, we control for firm acquisitions in a target province, which we coded '1' if a firm has majority-owned subsidiaries in a target province prior to the focal acquisition, and '0' if it does not have any subsidiaries in a target province. Firm acquisition in a target province indicates a 'foothold' in a focal target province, which should reduce a firm's need for political support. This is in line with studies in international business suggesting that acquisition experience in a foreign country increases the chance of further acquisitions in that country (Collins et al. 2009). We also include the top manager's experience in the target province, which is coded '1' if a chairman of the board, whose role in most respects is equivalent to that of a CEO in Western firms, was born, studied at higher-education institutions, or worked in a focal province, otherwise '0.' Also, we control for a top manager's political ties, which are defined as managerial ties to the government. In line with prior studies (Li et al. 2012), this variable is equal to '1' if a chairman of the board is or had been an official of the central government, local government, industry bureau or military, otherwise it is set at '0.'

Two additional firm-level control variables are included—firm performance and firm size—both of which are likely to intensify cross-province acquisitions, since they indicate a firm's resource endowment (Lu et al. 2014). Firm performance one year prior to a focal acquisition is proxied by a logarithm-transformed return on assets (ROA), defined as net income divided by total assets, which is a common accounting measure of performance widely used in studies on firm acquisitions (Zollo and Singh 2004). Firm size was calculated as a logarithm-transformed value of a number of firm employees 1 year prior to a focal deal (Liang et al. 2012).

Finally, we control for the market-size difference between home and host province, defined as a logarithm-transformed absolute difference in Gross Regional

Product (GRP) levels between two provinces in a dyad (Tsang and Yip 2007). Large market size is attractive for acquirers, hence instigating acquisitions from less- to more-developed countries (Ellis 2008). In China, conducting business in less-developed provinces might be advantageous due to lax taxation, cheaper labor, and more accessible land (KPMG 2012). In light of the Chinese government's use of acquisitions to restructure its economy and advance personal or local gains, SOEs can be significantly underpriced, thereby increasing their attractiveness as targets. This makes acquisitions from larger to smaller markets more plausible (Tsang and Yip 2007). The data for this variable were taken from China Statistical Yearbooks 2004–2013. Similarly to the marketization-index difference between home and host provinces, market-size difference varies between negative and positive values, where negative values indicate that an acquiring province has a smaller market size compared to that of a target province. We also control for industry using Standard Industrial Classification (SIC) codes by including industry variables in all models.

Analytical approach

Our analytical approach is directly linked to the construction of our sample. In order to establish the relationship between political rotations and cross-province acquisitions over the course of 10 years, we included in the sample all political rotations between all administrative regions in China and all majority rights transfer cross-province acquisitions that took place in the selected timeframe. This strategy is important to generate unbiased results because every year some provinces were involved in political rotations and some were not. Likewise, every year a firm may or may not have engaged in a cross-province acquisition and this acquisition may or may not have occurred in a dyad of provinces that involved a political rotation. Hence, for our purposes, it was important to cover the whole totality of possible combinations of destinations of political rotations and cross-province acquisitions. To achieve this, in the sample construction we allowed for the possibility that each firm each year had a chance of entering any of the thirty administrative regions in China outside of the home location. The total sample size is then 358 firms multiplied by 10 years and by 30 administrative regions, yielding 107,400 firm-year-target province observations.

Our data, thus, have a hierarchical structure; years of observations ($j = 1, \ldots 10$) are nested under acquiring firms ($k = 1, \ldots 358$), and potential target provinces ($l = 1, \ldots 30$) in turn are nested under years of observations. Since our dependent variable is non-negative and discrete, and its sample mean equals its variance ($M = s^2 = 0.004$), we specified a Poisson distribution and a logarithmic link function. To analyze the data we use a generalized linear mixed model.

Results

Descriptive statistics and a correlation matrix are presented in Table 1. The values display statistically significant correlations between several of our independent variables and the number of cross-province acquisitions, all with the expected signs.

Table 1 Correlation table

	Independent variables	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
1	Number of acquisitions	0.00	0.06										
2	Firm performance	7.82	0.05	− 0.00									
3	Firm size	7.39	1.74	0.00	− 0.06**								
4	Top manager's political ties	0.18	0.38	0.00	0.05**	0.01*							
5	Top manager's experience in a target province	0.03	0.17	0.01**	− 0.00	− 0.02**	0.00						
6	Firm acquisitions in a target province	0.17	0.32	0.03**	0.02**	0.06**	0.04**	0.18**					
7	Market-size difference	0.59	1.26	− 0.03**	0.05**	0.04**	− 0.00	− 0.00	− 0.02				
8	Marketization-index (MI) difference	1.43	2.57	− 0.03**	− 0.01**	0.06**	− 0.02**	− 0.01**	− 0.02**	0.77**			
9	State shareholding	19.02	24.21	0.01	− 0.00	0.19**	− 0.04**	− 0.01*	0.00	− 0.09**	− 0.05**		
10	Outgoing political rotation	0.14	0.35	0.01**	0.01*	0.02**	0.00	0.03**	0.03**	− 0.06**	− 0.01**	0.07**	
11	Incoming political rotation	0.11	0.32	0.02**	− 0.02	0.07*	0.00	− 0.00	0.02**	− 0.13**	− 0.05**	0.13**	0.22**

$N = 107{,}400$; * $p < 0.05$, ** $p < 0.01$

In particular, firm acquisitions and top manager's experience in a target province are positively related to cross-province acquisitions in that province, and both market-size and marketization-index differences are negatively related to the dependent variable. Outgoing and incoming political rotations are both weakly, but significantly, related to the dependent variable ($r = 0.01$ and $r = 0.02$, $p < 0.05$ respectively), and they are positively correlated ($r = 0.22$, $p < 0.05$). This indicates that for some provincial dyads political rotation occurs in both directions simultaneously. There is also a highly positive and significant ($r = 0.77$, $p < 0.01$) relationship between market-size difference and marketization-index difference, suggesting that the level of economic development and the level of institutional development go hand-in-hand. To test the implications of this, we ran robustness checks excluding market-size difference due to its high correlation with marketization-index difference. The results remain unchanged.

The results of our regression models are presented in Table 2. Model 1 is a null model with control and moderating variables only, in Model 2 we add our political rotation variables, Model 3 tests the interaction effects between incoming political rotation and marketization-index difference, and Model 4 is a full model with a triple interaction term between incoming political rotation, marketization-index difference, and state shareholding. To provide additional evidence with regard to the effect of outgoing political rotation on cross-province acquisitions compared to incoming political rotation, we included mirrored interaction effects with an outgoing political rotation variable in Models 3 and 4.

The findings of the null model demonstrate that top manager's experience in a target province ($\beta = 0.41$, $p < 0.05$) and firm acquisitions in a target province ($\beta = 1.01$, $p < 0.001$) are both positively and significantly related to the dependent variable. In fact, the latter variable has the strongest effect size on the number of cross-province acquisitions in all Models. We test Hypothesis 1 that outgoing and incoming political rotations lead to more cross-province acquisitions and Hypothesis 2 specifying that incoming political rotation is a stronger predictor of cross-province acquisitions in Model 2. Both political rotation variables are statistically significant at $p < 0.05$ and $p < 0.01$, respectively, offering strong support for Hypothesis 1. The comparison of beta coefficients of these two variables demonstrates that incoming political rotation has a larger impact on the number of cross-province acquisitions than outgoing (0.45 and 0.27, respectively). In addition, we ran a Wald test to measure the difference between the two beta coefficients. It appeared that the two coefficients were not significantly different from zero ($\Delta(\text{coef}) = 0.19$, $p = 0.17$). In other words, we can claim that the coefficients differ only descriptively and not statistically. Hence, we find no support for Hypothesis 2.

Model 3 includes two sets of interaction effects testing Hypothesis 3, that the effect of incoming political rotation is stronger when acquisitions run from less-developed acquiring provinces to more-developed target provinces. The results are not statistically significant, thus we do not find support for Hypothesis 3.

Hypothesis 4, that the effect of incoming political rotation is stronger for POEs located in less-developed provinces and aiming to acquire firms in more-developed provinces, is tested in Model 4. To do this, we constructed a triple interaction effect

Table 2 Regression results, number of cross-province acquisitions is a dependent variable

Independent variables	Model 1	Model 2 (H1, H2)	Model 3 (H3)	Model 4 (H4)
Firm performance	− 0.20 (1.02)	− 0.21 (1.05)	− 0.21 (1.04)	− 0.21 (1.04)
Firm size	0.04 (0.03)	0.04 (0.03)	0.04 (0.03)	0.04 (0.03)
Top manager's political ties	− 0.00 (0.12)	− 0.01 (0.12)	− 0.01 (0.12)	− 0.02 (0.12)
Top manager's experience in a target province	0.41 (0.19)*	0.40 (0.19)*	0.41 (0.19)*	0.40 (0.19)*
Firm acquisitions in a target province	1.01 (0.11)***	0.99 (0.11)***	0.98 (0.11)***	0.98 (0.11)***
Market-size difference	− 0.22 (0.06)**	− 0.19 (0.07)**	− 0.19 (0.06)**	− 0.19 (0.06)**
MI difference	− 0.11 (0.03)**	− 0.12 (0.03)***	− 0.11 (0.03)**	− 0.11 (0.03)**
State shareholding	0.00 (0.00)	− 0.00 (0.00)	− 0.00 (0.00)	0.00 (0.00)
Outgoing rotation		0.27 (0.12)*	0.29 (0.12)*	0.41 (0.16)*
Incoming rotation		0.45 (0.12)**	0.46 (0.12)**	0.43 (0.18)*
Outgoing rotation*MI			− 0.03 (0.06)	− 0.02 (0.07)
Incoming rotation*MI			− 0.05 (0.06)	− 0.18 (0.07)*
Outgoing rotation*State shareholding				− 0.00 (0.01)
Incoming rotation*State shareholding				− 0.00 (0.01)
State shareholding*MI				− 0.00 (0.01)
Outgoing rotation*State shareholding*MI				− 0.00 (0.00)
Incoming rotation*State shareholding*MI				− 0.01 (0.00)**
Generalized χ^2	104,027	104,171	103,943	103,060
− 2 Residual log pseudo-likelihood	923,837	926,261	925,596	925,296

$N = 107{,}400$; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. Unstandardized coefficients are reported with standard errors in parentheses. Each model includes industry dummies

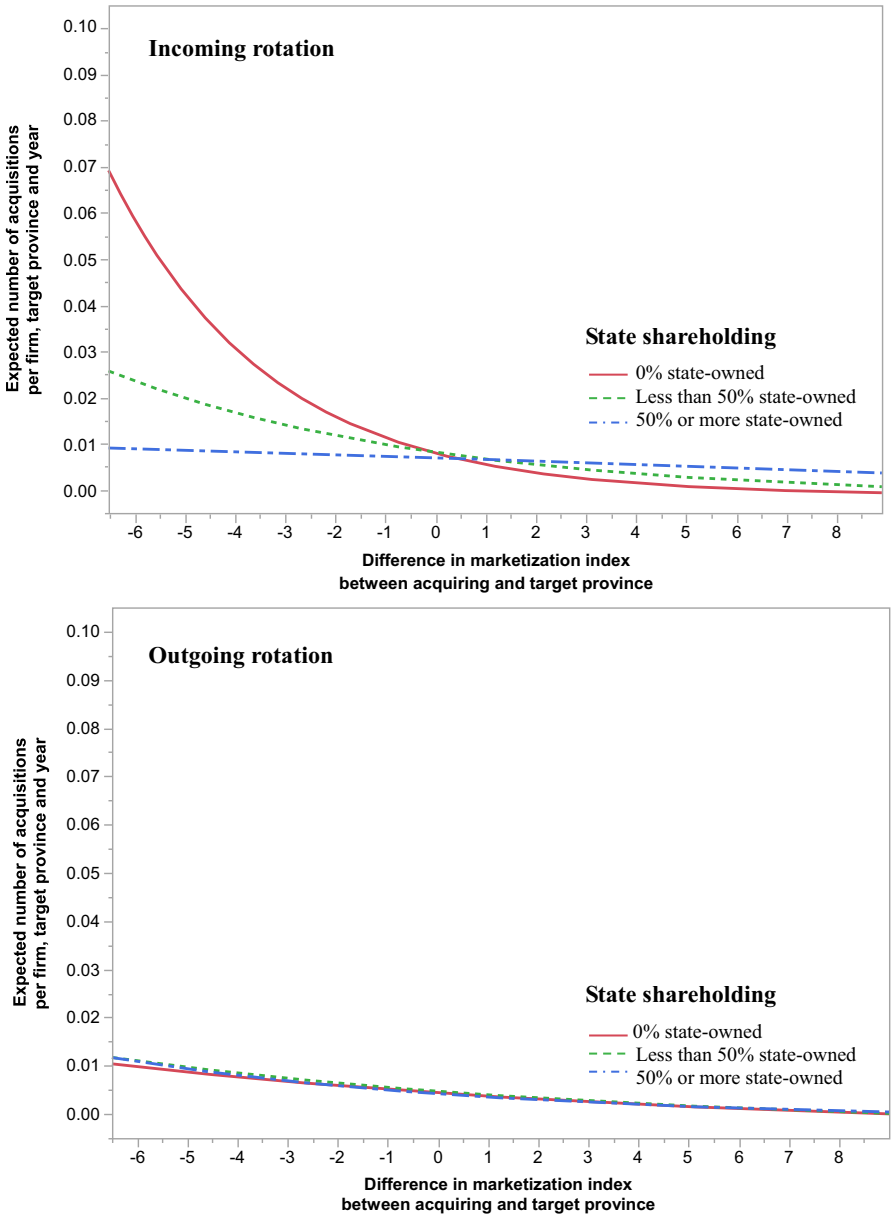

Fig. 1 The interaction effect of political rotation, marketization index, and state shareholding on the number of cross-province acquisitions

between incoming political rotation, state shareholding, and marketization-index difference; we found that its impact on the number of cross-province acquisitions is negative and statistically significant ($\beta = -0.01, p < 0.01$). This interaction effect is plotted in Fig. 1, keeping all other independent variables at their mean levels.

As the plot illustrates, there is a significant spike in the number of cross-province acquisitions for firms with no state shareholding—approximately between − 3 and − 6 difference range in marketization indices between acquiring and target provinces. Contrasting these marketization-index differences with marketization indices of different Chinese provinces, we could confirm that the spike is represented by acquisitions from less-developed interior provinces to coastal provinces. Overall, this finding supports Hypothesis 4.

It is important to note that, as mentioned earlier, having conducted prior acquisitions in the target province is by far the strongest predictor of future cross-province acquisitions. In this light, the finding that incoming political rotation significantly, albeit relatively weakly, impacts cross-province acquisition growth is even more remarkable. Also, it is interesting that none of the interaction effects with outgoing political rotation in Model 4 are significant, which may indirectly lend support to our main idea that incoming political rotation is a larger factor for cross-province growth than outgoing.

Several robustness checks were made. We investigated whether the high correlation between market-size and marketization-index differences has implications for the significance of the latter, as it could have been boosted by a suppression effect or partially been masked by a mediation effect of the market-size difference. Specification of the model with omitted market-size difference revealed that the marketization-index difference variable increased considerably in absolute size (by 80%), which however did not qualitatively affect the statistical test results.

Another aspect of our analysis that may be questioned is the inclusion of contemporaneous measures of market-size and marketization-index differences, which we considered in the context of Chinese state capitalism to be relatively stable year-on-year. To examine how sensitive our results were to this, we replaced contemporaneous measures with one-year lagged measures in the specification of Model 4 and re-estimated the model parameters. The results of our analysis remained unaffected.

Discussion

In this study, we have investigated one possible way in which firms can overcome barriers to cross-province acquisition growth. Drawing on social network theory, we propose that in China the rotation of political leaders offers a lever for overcoming such barriers. Our findings suggest that political rotation intensifies cross-province acquisitions in both directions—from the former province of the rotated political leader to the current province, and vice versa. Moreover, we find that incoming political rotation is especially useful for POEs located in less-developed provinces aiming to acquire in more-developed provinces.

Our study makes several contributions. First, we contribute to the literature on social networks in China (Batjargal 2007; Jansson et al. 2007; Michailova and Hutchings 2006; Sheng et al. 2011). Chinese social networks are known to be small and geographically concentrated, homogeneous, strong, and with high within-group trust and density, making them mostly devoid of structural holes and, therefore,

brokers (Batjargal 2007). This creates structural obstacles for gathering novel information which could be used to inform new firm strategies and, ultimately, innovation. These obstacles are further compounded by provincial barriers. However, even though business networks in China may not include brokers, our results indicate that business–government networks do, with rotated leaders functioning as brokers, thus providing non-redundant information to firms. Most importantly, these brokers span geographically separated clusters, channeling new information to both clusters. Hence, our results offer an important extension to the understanding of the structural characteristics of social networks in China.

Second, our results show how social network theory can be enriched by taking into account a spatial dimension (for a discussion, see Ter Wal and Boschma 2009). In the literature on political and business connections, the most commonly used empirical measures of political capital are party membership of top managers and working experience in the government or military (e.g., Li et al. 2012). Recently, however, studies have started to emerge that investigate how other, more specific, forms of political capital such as membership in business associations and subcontracting for a politically connected firm may matter (Jia 2014; Özcan and Gündüz 2015). Heeding such adoption of novel measures of political capital, our study takes a spatial approach. We also control for the commonly used measure of firm political connections, showing that its effect is insignificant for cross-province acquisitions, whereas a rotated political leader has a significant effect. This implies that the effect of political connections may have geographical boundaries and that generic measures of political capital do not cover the full extent of government influence on firm strategy. We suggest that a theoretical contribution of our study lies in showing how specific political connections may have value due to geographical factors and within certain locales.

Third, our contribution lies not only in conceptualizing the value of specific types of political connections, but also by showing that a certain strategic behavior is facilitated by them. The literature on political connections generally theorizes that managerial political connections bring support, information, and uncertainty reduction for firms (Lin et al. 2014). In terms of empirical research, however, the focus has predominantly been on the performance effects of political connections, with very little empirical attention to what these connections facilitate (Jia and Zhang 2013; Lin et al. 2014; Luo et al. 2012). A growing body of literature has recently started to investigate the impact of political connections on strategic behavior, such as the degree of diversification, internationalization, and innovation (e.g., Chen et al. 2014; Li et al. 2012). Our study contributes to this literature by shedding light on firm cross-province acquisitions as a form of strategic behavior which can also be facilitated through connections to rotated political leaders.

Fourth, our study contributes to the literature on the rotation of political leaders in China. The field of public economics and administration has an established trail of studies focused on the explanation of what causes rotation (Li and Zhou 2005; Shih et al. 2012; Su et al. 2012; Wu 2010). Fewer studies investigate the outcomes of such rotations, for example, showing that a rotated political leader may exert influence only in the new province (Zhang and Gao 2008; Zhu and Zhang 2016). We contribute to this literature by showing that the implications of such rotation on

business dynamics may reverberate across both new and old provinces. This finding demonstrates that political rotation may be an important policy tool for not only controlling morale among cadres and dissemination of best practices, but also for directly boosting business activity across the provinces.

Finally, our results raise the question of whether these results are unique for China or whether similar patterns could be observed elsewhere. We believe the answer is two-fold. On the one hand, information exchange as a mechanism through which political rotation facilitates acquisitions is universal. On the other hand, the institution of political rotation is not commonly found. Moreover, China has a federalist structure with rather autonomous provinces and trade barriers between them, as well as a relational culture and institutional voids, which render informal social ties important. All of this counts towards making the results particular to China.

This study also has implications for managers. On the one hand, the results indicate that managers can benefit from scanning the political environment and glean valuable information about acquisition opportunities by connecting with rotated leaders. On the other hand, cross-province acquisitions may also be the result of deliberate match-making by political leaders between acquiring and target firms. If this is the case, then some targets may be a sub-optimal choice for acquiring firms. However, the fact that political ownership does not moderate the effect of political rotation on cross-province acquisitions indicates that the effect is not caused solely by political match-making, as that should be easier to accomplish for firms under direct political ownership. All in all, our study serves as a reminder that political connections can be a double-edged sword and, given our belief that match-making is not the sole explanation for our results, connecting with rotated leaders should certainly not be avoided altogether.

Limitations and implications for future research

The nature of this study is exploratory and has limitations. In particular, we conceptualized a rotated political leader as a broker between two provincial business–government networks and that a symbiotic relationship between such a leader and firms, especially in the new province, impacts cross-province acquisitions. Prior studies suggest that local leaders do form networks with local firms and, for example, even present them with cross-border opportunities (China Daily 2017; Shi, Markóczy and Stan 2014). However, we did not empirically test if local firms indeed had *guanxi* ties with political leaders. Future studies could address this limitation. Another limitation of the study is that we were unable to investigate the time trend of the impact of political rotations on cross-province acquisitions, looking, for example, into how fast after the rotation we can observe the effect. The reason for this is that the multilevel panel structure of our data yielded very few positive cross-province acquisition events, thereby distorting the potential analysis of the time trend. This multilevel panel structure of the data, at the same time, makes it possible to control for firm-level effects while investigating the impact of a

macro-level political rotation on cross-province acquisitions, therefore offering certain advantages.

Finally, not all provinces in China have an equal supply of target firms, meaning that some provinces have more potential targets than others, therefore the target munificence of provinces might impact our results. It is, of course, also possible that qualitative characteristics of potential target firms, e.g., ownership and industry, might vary within and between provinces. It is conceivable that the use of political rotations by firms differs depending on the type of target firm being acquired—for example, whether it operates in a different industry and, therefore, presents more or less risk. Lastly, in this study we followed Persson and Zhuravskaya's (2008) definition of political leadership, which takes into account deputy governors and deputy party chiefs; we stated that these are the levels of political cadres that are most incentivized to build a symbiotic relationship with local businesses compared to lower-level cadres, who may be rent-seeking. The latter statement is based on anecdotal evidence, and we are unaware of any statistics on this matter (Ma, Lin and Liang 2012). Hence, further probing into what levels of political cadres have more or less interest in building win–win relationships with local businesses would be helpful.

Conclusion

In this study, we conceptualized and tested how cross-province rotation of political leaders impacts cross-province acquisitions in China. We suggested that a rotated leader becomes a broker between two business–government networks offering firms information and reputational benefits not otherwise available to them. Our empirical findings suggest that political rotation facilitates cross-province acquisition growth and that such rotation is most useful for private firms located in less-developed provinces aiming to acquire in more-developed provinces. These findings advance our understanding of the nature of Chinese social networks, the effect of political connections on firm strategy and the outcome of cross-province political mobility in China.

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